

**Minutes of the Roundtable**

**Seated at the moderated discussion table:**

1. Secretary of State Sam Reed
2. Rebecca Sherrell, *OSOS Charities Program Manager*
3. Mike Ricchio, *OSOS, Director of Corporations*
4. Shane Hamlin, *OSOS, Legislative Liaison*
5. Colleen Woodrow, *OSOS, Executive Intern*
6. Moonwater, Director, *Whatcom Council of Nonprofits; Whatcom Dispute Resolution Center (Roundtable Mediator)*
7. Terri Briant Booth, *Visiting Nurse*
8. Kyle Morris, *The Pedal Project*
9. Rachael Sibley, *Mother Baby Center*
10. Trula Nicholas, *Whatcom Council of Nonprofits*
11. John Korsmo, *Director, Northwest Institute for Nonprofit Excellence*
12. Jerry DeBacker, *WLT*
13. Rick Sucee, *Bellingham Police Association*
14. Bob Eberle, *Fund Raising Strategies*
15. Chris Cochran, *Rebound of Whatcom County*

**Roundtable convened.**

**Introduction by Moonwater**

1. Recognizes the privilege of Whatcom County being the first location of these nonprofit roundtable discussions
2. welcomes the openness of discussion
3. invites members of the audience to fill open seats at the moderated discussion table

*Floor is given to Secretary of State, Sam Reed*

**Sam Reed** recognizes his involvement in this sector

1. briefly discusses the reasoning behind the bill
  - a. primary goals of the bill is to increase transparency of the nonprofit sector
  - b. increase accountability of the nonprofit sector
  - c. notes that it is in the public's interest for the sector to be transparent and accountable
2. Describes sections of the bill
  - a. The bill proposes to re-examine areas of reporting that are not currently used or effective
  - b. Improve administrative efficiency
  - c. Require board members to review financial reports, which enhances accountability
  - d. This legislation joins the national discussion about audit requirements
  - e. The bill addresses the charities enforcement account

Secretary Reed notes that the Office of the Secretary of State insisted on having open discussions with stakeholders at the close of the end of the 2006 legislative session to improve the bill.

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*Floor is given to Mike Ricchio, Director of Corporations, OSOS*

**Mike Ricchio** begins by reviewing the bill

1. Where to find the latest version of the bill  
(<http://www.secstate.wa.gov/charities/zbill.aspx>)
2. notes that the latest version of the bill provides the following:
  - a. that the organization, as a whole, not individual board members, should be accountable for financial reports
  - b. an audit requirement
  - c. an enforcement element by the Attorney General
    - i. notes that this fund is not intended to be a general purpose fund
    - ii. the fund is to provide for the costs of enforcement
3. Discusses the ability for organizations to file on line, which would require changes in the computer system
  - a. Filing on line would provide interaction with the IRS
  - b. Also would streamline what information should be collected, what information to keep, and what information is not needed.
  - c. The bill addresses information that affects the new computer system that is proposed
4. Addresses hot topics of the bill
  - a. Definition of religious activities
    - i. Notes that the intention was not to change the religious activities definition but to clarify the definition and bring the treatment of this area into line with the IRS's treatment even though the IRS does not have a specific definition for religious activities. The idea behind this piece of the legislation is to draw a brighter line for registration purposes.
    - ii. The Office of the Secretary of State is operating with the principal of do no harm whenever possible: the reporting should be done by the sector and the scrutiny is to be done by the public and our office.
  - b. Audit
  - c. Enforcement
5. Notes that the purpose behind the legislation is to build sustainable public trust. The public should be able to use the information reported to the Office of the Secretary of State to make an informed giving decision

*Floor is given the Shane Hamlin, Legislative Liaison, OSOS*

**Shane Hamlin** suggests ground rules for the discussion, in order to make sure all topics are covered and there is ample time for questions. Also, he acknowledges Moonwater as moderator and asks attendees to sign-in, to keep track of who is involved in this discussion process.

*Floor is given to Mike Ricchio, Director of Corporations, OSOS*

**Mike Ricchio** begins going through the legislation.

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1. Pg 4, line 13: Religious activities definition

Initiated clarifying the definition to ensure that a charitable or soliciting organization does not pose as a religious organization simply to avoid registering with the state.

**Jon Korsmo** suggests that this clarification is very reasonable and very passable.  
**General agreement** from audience and others at the moderated table.

2. Pg. 6, line 5: Audit requirement

**Mike Ricchio** suggests that there is a problem with the term “audit” in that it suggests a high level of review. Notes that the term “audit” is flexible from his office’s point of view as is the threshold of when to require an audit.

**Terri Briant Booth**, *Visiting Nurse*. Agrees that the term “audit” is a problem because of the cost that is associated with an audit. For her organization, despite a \$4.5 million revenue usually ends with \$200-\$300. Currently, her organization has an audit every 3<sup>rd</sup> year; the rotation is “review, review, audit”.

Also, she acknowledges that the intent of the audit is to track funds raised through fundraising over \$1 million. She encourages the language be limited to fundraising.

**General agreement** to Terri’s comments.

**Rac hael Sibley** agrees that there are problems with the term “audit.” She suggests the term “independent management review by a CPA.” Currently, her organization undergoes this review process; it is less involved in terms of time and finances than an audit.

**Audience member** agrees that the independent review portion of the “audit” is what needs to be stressed.

**Audience member** encourages a focus on fundraising because most funding for her organization comes from government grants; actual revenue from fundraising is minimal. Also, encourages an annual review over a tri-annual independent review.

**Rick Sucee** suggests that the revenue that should be targeted for the “audit” should be the fundraising revenue, not the total revenue. Often the cost for an audit is more than actual funds raised.

**Jerry DeBacker** encourages further definition of the term “fundraising.” Asks whether matching funds and items like donation of land are included in “fundraising”?

**Bob Eberle** suggests that the results from the certified review done by a CPA could be used in lieu of an “audit.”

**Audience member** questions if CPAs offered a term other than “audit.”

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**Mike Ricchio** notes that CPAs did not offer specific terminology alternatives.

**Terri Briant Booth** supports the term “independent management review.”

**General Agreement** from the audience for this term.

**Mike Ricchio** notes that the purpose of the “audit” is only prospective, not retroactive.

**Audience member** asks what issue prompted the Office of the Secretary of State has seen which has necessitated this section.

**Mike Ricchio** notes that this section came about to ensure that the financial condition of the organization is not obscured. Until there is a better form than the IRS Form 990, from the stand point of enhancing public trust, an “audit” is something that would strengthen public trust. Also, a Nonprofit Sector Report directly addresses this issue, and the state is doing its best to anticipate the requirements of that report.

**Moonwater** notes that the move towards increased accountability is a positive move; however, she questions if the \$1 million threshold will be lowered in the future? And, what will the impact be on small nonprofits?

**John Korsmo** agrees that terms need to be clarified. Notes that a fixed minimum could be problematic for the future. Asks if there is another option?

**Terri Briant Booth** suggests that the “audit” threshold could be tied to a certain percentage of the total operating revenue.

**Mike Ricchio** notes that some good ideas have come to light through the discussion. Many comments confirm the concerns of CPAs.

***Moonwater and Secretary of State Sam Reed** encourage the discussion to move to the other topic on the agenda.*

3. Pg. 15, Line 18: Board review of financial statements

**Mike Ricchio** notes that the intention of this section is to acknowledge their duty to review official submissions to the state.

**Terri Briant Booth** suggests that if the language is tied to the previous section, she has no problems with this section.

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**Secretary of State Sam Reed** notes that her point is well taken. He agrees that the language should be consistent from section to section. This section should also be tied to the previous section.

4. Pg. 17, line 9: Enforcement

**Mike Ricchio** asks for comments.

**General audience** has no comments on this section.

**Secretary of State Sam Reed** suggests that the problem is that more help is needed with enforcement issues.

**Rachael Sibley** notes that if all nonprofits are bearing the (financial) burden fairly and funds are needed in order to share the burden, she doesn't think there is a problem with the section.

**Moonwater** asks about access to the funds.

**Mike Ricchio** explains the process of enforcement through his office and the Attorney General's office. Mike also notes that the legislature wants to have a hand in appropriating money for enforcement.

**Secretary of State Sam Reed** notes that education might help people carry out their enforcement and reporting duties.

**Trula Nicholas** suggests that the intention will be better received if the approach is to have the nonprofit sector strengthened, not to have the government imposing the idea of "we'll be watching you..."

**Audience member** asks isn't there enforcement already in place? How is this section different from the current enforcement?

**Mike Ricchio** notes that the enforcement is not different from what is already in place. The difference is that this funding could be used in a targeted way for enforcement and to sustain and maintain education.

**Audience member** suggests that the funds could be used to either offset the accounting costs of the "audit" or for education.

**Audience member** suggests that the whole nonprofit sector would benefit from good enforcement because one bad apple impacts the whole sector.

**Audience member** notes that improvements toward building more public trust are positive.

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**Mike Ricchio** notes that the intention of this section is to make sure that the Attorney General's office has every opportunity to fulfill what it is statutorily charged with doing.

*Open floor for additional comments and questions.*

**Audience member:** Asks that education be increased to help the public be aware of good organizations, while acknowledging that administrative costs are necessary to meet the needs of their programs. Information helps people make rational decisions about what organization to support.

**Rick Sucee:** offers three suggestions

- Limit should be raised on the threshold for exemption to either \$25,000 or \$50,000
- Allow agencies to register as an exempt organization and allow the public to view that on the website.
- In-state organizations should be required to stay in-state to solicit funds over the phone.

**Rebecca Sherrell** notes that the current threshold is \$25,000 for volunteer-run organizations and also noted that the Exempt application is posted on the Charities Web site.

**Audience member:** suggests that it be required to have a CPA fill out the IRS Form 990.

**Audience member:** suggests having an independent CPA fill out the IRS Form 990 could fulfill the "audit" requirement and the third party requirement as well.

**Rebecca Sherrell:** notes that if a CPA did fill out the IRS Form 990, it would improve consistency and may meet the requirement. She also notes that it is not necessarily a good solution because smaller organizations do not have CPAs or access to CPAs.

**Mike Ricchio:** notes that in filing, the state requires more information than what is asked on the IRS Form 990.

**Audience member:** notes that the purpose of organizations in the sector is to get money to their causes, but legislation is onerous to small organizations because money is spent to fulfill the state and federal requirement, and is then not going to the cause.

**Mike Ricchio:** Two senators are heading the federal effort. Suggests putting more information on the website about the status of the federal legislation. Right now, the state is in limbo because this legislation hasn't passed, but is clearly intended to be a hedge against having a Sarbanes-Oxley law for the nonprofit sector. The intention is to tighten accountability and transparency for the public's sake.

**Bob Eberle:** suggests that the Secretary of State have the authority to offer reciprocity from state to state for nonprofit organizations.

Bellingham Nonprofit and Charities Roundtable  
Wednesday 28 June 2006, 1:30-:300pm

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**Mike Ricchio** highlights the next steps of the process:

1. Minutes from the roundtable discussion will be posted on the website after each roundtable
2. At the end of the roundtables, an advisory panel with members that were present at each roundtable will be convened to summarize all panels.
3. Legislation will be ready to be resubmitted by October.

**Moonwater** thanks the Office of the Secretary of State and attendees for the openness of the roundtable. Also, offers the Whatcom Council of Nonprofits to serve as a conduit for feedback and supporting the efforts of the Office of the Secretary of State.

**Roundtable adjourned.**